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TO AMEMBASSY ANKARA PRIORITY

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FOL REPEAT TOKYO 17484 ACTION SECSTATE DTD 26 NOV.

QUOTE

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DEPARTMENT PLEASE PASS IEA CAPITALS AS PRIORITY

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E.O. 11652: N/A

TAGS: ENRG, OPEC, JA

SUBJECT: OPEC PRICE DECISION

REF: STATE 278391

1. IN A SUMMARY STATEMENT ISSUED NOVEMBER 22, 1976, THE ECONOMIC RESEARCH INSTITUTE FOR THE MIDDLE EAST, AN AFFILIATE OF JAPAN'S ECONOMIC PLANNING AGENCY, SAID THAT OPEC IMPORTS FROM THE WEST IN 1975-1976 ROSE 1.1 PERCENT; AND ACTUALLY FELL, IF THIRD QUARTER 1976 NOT INCLUDED. THE MITI OFFICIAL WHO PROVIDED ENGLISH LANGUAGE TEXT SAID IT WOULD BE PUBLISHED IN THE DECEMBER 1 ISSUE OF THE UK'S PETROLEUM ECONOMICS (CORRECT NAME?). HE ALSO SAID HE REALIZES THAT ARGUMENTS OVER RELATIVE INDEX INCREASES AND DECLINES SMACKS OF INDEXATION, BUT OFFERS THE ANALYSIS BY WAY OF ADDITIONAL "CORRECTIONS OF ERRONEOUS DATA" (REFTEL PARA 5).

2. FULL REPORT BEING POUCHED: SUMMARY STATEMENT FOLLOWS:

RECENTLY, OPEC SPOKESMEN HAVE STATED THAT INFLATION IN THE PRICES OF IMPORTS FROM ADVANCED INDUSTRIALIZED COUNTRIES IS JUSTIFICATION FOR A HIGH INCREASE IN OIL PRICES. THE ECONOMIC RESEARCH INSTITUTE FOR THE MIDDLE EAST, HOWEVER, QUESTIONS THE VALIDITY OF THIS ARGUMENT.

THE INSTITUTE STUDIED THE PRICE INDEX OF OPEC IMPORTS FROM INDUSTRIALIZED WESTERN NATIONS, AND FOUND THAT IT ROSE ONLY 1.1 PERCENT DURING THE ONE-YEAR PERIOD FROM THE THIRD QUARTER OF 1975 TO THE THIRD QUARTER OF 1976. IF THE MOST RECENT QUARTER, WHICH INCLUDES SOME ESTIMATES, IS NOT INCLUDED IN CALCULATIONS, THE INDEX FELL, BY 4.8 PERCENT.

THIS SUGGESTS THAT AT PRESENT, THE USE OF INDEXATION, WHICH SOME OPEC SPOKESMEN HAVE ADVOCATED, WOULD OBLIGE OPEC TO RAISE PRICES BY 1.1 PERCENT, OR LOWER THEM BY 4.8 PERCENT.

AS REASONS FOR THIS DIFFERENCE IN APPROACH TO PRICE ADJUSTMENT, THE INSTITUTE IDENTIFIES THE OPEC PRACTICE OF COMPUTING IMPORT PRICES ON THE BASIS OF CIF PRICES. THIS PRACTICE LEADS TO LIMITED OFFICIAL USE

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INCLUSION OF PORT CONGESTION SURCHARGES, FOR WHICH WESTERN NATIONS CANNOT BE BLAMED, IN THE PRICES OF IMPORTS. ALSO, THE INSTITUTE URGES, OPEC NATIONS SHOULD NOT BE EXCESSIVELY CONCERNED OVER DIFFERENCES IN PROJECT TENDER PRICES AND ACTUAL PRICES, AS THESE DIFFERENCES ARE CAUSED BY MATTERS RELATED TO PROJECT COST ESTIMATION INCLUDING INABILITY TO ACCURATELY DETERMINE COSTS IN ADVANCE. THAT PROJECTS COST MORE THAN INITIALLY EXPECTED, THEN, IS NOT PRIMARILY DUE TO IMPORT INFLATION, AND DOES NOT

JUSTIFY INCREASES IN OIL PRICES.

MOREOVER, THE INSTITUTE EMPHASIZES THE NEED FOR OPEC TO GIVE GREATER CONSIDERATION TO PROBLEMS WHICH OIL PRICE INCREASES CAUSE IN THE NON-OIL-PRODUCING COUNTRIES OF THE THIRD WORLD, OR THE NOPEC COUNTRIES.

THE EFFECTS OF OPEC ACTION IS STRONGLY FELT AMONG THE COUNTRIES WHICH ARE AT A RELATIVELY HIGHER STAGE OF ECONOMIC DEVELOPMENT, AND WHICH HAVE A HIGH DEMAND FOR IMPORTED OIL, SO THAT THERE IS CONSIDERABLE VARIATION AMONG NOPEC COUNTRIES.

AFTER THE FOURTH QUARTER OF 1975, THE IMPORT INFLATION RATE IN THE OPEC COUNTRIES REACHED NEGATIVE LEVELS--BECAUSE THE INDEX OF IMPORT PRICES FROM THE INDUSTRIAL NATIONS WAS LOWERED. HOWEVER, THE IMPORT INFLATION RATE IN THE NOPEC COUNTRIES STAYED AT POSITIVE LEVELS DUE TO THE 10 PERCENT OIL PRICE INCREASE WHICH WENT INTO EFFECT FROM OCTOBER, 1975.

THEN, A CRUCIAL QUESTION IS, WHICH BLOC IS MORE RESPONSIBLE FOR THE IMPORT INFLATION IN THE NOPEC COUNTRIES, THE INDUSTRIAL NATIONS WHICH EXPORT GOODS OR THE OPEC NATIONS? OR, WHICH OF THE TWO FACTORS HAD MORE IMPACT ON THE IMPORT PRICE INDEX OF THE NOPEC NATIONS, THE INCREASES OF PRICES OF THE INDUSTRIAL GOODS OR THE PRICE INCREASE OF OIL? THE INSTITUTE FOUND FOR 1970-1975, THE CONTRIBUTION OF THE OPEC NATIONS, IN THE CASE OF INDIA, FOR EXAMPLE, IS 59 PERCENT, WHILE THAT OF THE INDUSTRIAL NATIONS IS 41 PERCENT. MOREOVER, FOR 1970-1976, THE OPEC NATIONS ARE RESPONSIBLE FOR 60.9 PERCENT OF INFLATION WHILE THE INDUSTRIAL NATIONS ARE RESPONSIBLE FOR 39.1 PERCENT.

THE INSTITUTE CONCLUDES THAT OPEC SHOULD TAKE THESE FACTORS INTO CONSIDERATION WHEN ADJUSTING THE PRICE OF OIL.

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